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OLAA AND THE PUNA PLANTATION DEAL

Mr. Damon Protests and Mr. Dillingham Explains--Mr. McStocker's Explanation.
Interesting Business Meeting.

The Olaa Sugar Company purchased the Puna Sugar Company at a meeting of stockholders held yesterday forenoon. After considerable discussion, during which Mr. S. M. Damon of Bishop & Company's bank opposed the deal, it was decided by a vote of over 140,000 shares to a little over 17,000 that the purchase should be made. This means that Olaa take over the outstanding bonds of the Puna plantation amounting to \$500,000. The matter was brought before the meeting by the following resolution offered by W. R. Castle:

"Resolved that the directors of this company be and they are hereby authorized and directed for and in behalf of this company to purchase from the bondholders of the Puna Sugar Co., Ltd., through their representative, B. F. Dillingham, all the bonds of the Puna Sugar Co., in accordance with the suggestion contained in letter dated April 24, 1905, of B. F. Dillingham to this company, as follows, to wit: for \$444,000 par value of said bonds, 22,220 paid-up shares of this company, for \$56,000 par value of said bonds, \$18,666.66 cash."

S. M. DAMON DEMURS.

S. M. Damon presented the following written demur to the closing of the deal:

"As a shareholder we do not consider it in the interest of shareholders of Olaa that so large a portion of the assets of the Olaa Sugar Company should be given to the bondholders of Puna for their bonds.

"The debt of Olaa today to its agents is \$870,000 and, under present circumstances, we are not prepared to make any advances to the Olaa Company for the purpose of carrying Puna plantation."

He also said, supporting his contention:

"A year ago when it was at our option to let what we had advanced to Dillingham & Co. and Olaa go by the board and the plantation go into bankruptcy, the most earnest endeavor was made to save the plantation. We took it over. With the able management of Mr. Watt and the good advice of our attorney, Mr. Holmes, Olaa is on a very different footing today.

"We have applied every dollar to the development of Olaa and it is now second to none as to future prospects. By a concentrated effort right on Olaa, not switching off to Puna or the Hilo railroad, can Olaa be made a success.

"If Olaa had back the money it had advanced to the Hilo railroad it would be in a very different position today. Olaa must stick to Olaa and Olaa alone, as has Ewa and so well succeeded. I would raise my voice in protest against the taking of Puna, it has been one long series of losses. There is no man who has studied the interests of Olaa as has Manager Watt. The prospects of Olaa are so good that a firm of Japanese want to take over 1500 acres of land. Negotiations are now going forward. The Japanese have men on the ground looking over the land.

"When you stand by Olaa and nothing else you are all right; if you deviate you are lost."

LETTER FROM WATT.

A letter from Manager Watt of Olaa plantation was read. He said in part: "As I cannot see where the Olaa Sugar Co. is to be benefited, what appealed to me when first reading over the proposition was the funding of the present debt and floating a new bond issue of \$2,000,000 immediately, but it was considered by all the directors present here two weeks ago that a new bond issue could not in all probability be floated for some time to come.

"Puna will not be a paying investment unless a considerable amount of capital is spent to put the fields in a fit state for cultivating economically and the railroad extended to lessen the cost of harvesting the crop.

"To rock the lands at present under cultivation at Puna would cost fifty dollars per acre.

"In regard to letting out lands at Puna, I do not think there would be any difficulty but it is doubtful if they could carry out their obligations and in the event of their failing, Olaa would have to step in or let the crops go to waste.

"In a short time Olaa will be in such a position that there should be no difficulty in increasing the bond issue and selling the stock that is now in the treasury and the money expended for purposes of development or otherwise as may be deemed best."

Ernest A. Mott-Smith said he had visited Olaa and Puna and felt that Puna was capable of development to advantage. Puna was a plantation in a developed state already.

MR. DILLINGHAM'S LETTER.

Mr. Dillingham made the following written statement:

April 24, 1905.

Olaa Sugar Company, Limited, Honolulu.

Gentlemen: As you know, I have

for some weeks past been engaged in attempting to make the best terms possible in the disposition of the Puna plantation. In so doing I have primarily been acting in the interests of the Puna bondholders. In the course of my work it has grown upon me, however, that the interests of the Olaa Sugar company will be much better served by its securing the ownership of Puna, rather than to make a total loss of its investment therein of approximately \$600,000, if it can be done on advantageous terms, especially as the interests of the Puna bondholders can at the same time be protected.

Various plans have suggested themselves and been rejected, but the following has impressed me so strongly that I feel it my duty to myself and the other stockholders in Olaa, and to its creditors, to present it to you. The proposition referred to is as follows:

1. The Puna bond issue is \$500,000. I hold an option on 56 bonds of a par value of \$56,000 at 33 1/3 per cent equal to \$18,666.66, in cash.

This leaves \$444,000 par value of bonds to be dealt with.

2. About one-half of this amount is owned by the Bank of California, the San Francisco Savings Union and the Crocker-Woolworth National Bank.

A large portion of the other one-half is pledged as security to a syndicate consisting of ten of the leading banks and capitalists of San Francisco.

3. I cannot assure you that it can be done, but I believe that if your company will offer the holders of said bonds Olaa stock at par, for said bonds at par, i. e., 22,220 Olaa shares for 444 Puna bonds, they can be induced to accept the same.

I urge upon you that you make this offer, for the following reasons:

(A) The present Puna crop is conservatively estimated at 25,000 tons of cane. At present, prices the receipts therefrom by the receiver will be a little less than \$7.00 per ton, equal to say \$175,000.

His expenses I estimate as follows:

(1) Receiver's expenses to time of harvesting \$30,000
(2) Harvesting 25,000 tons of cane say 55c. 13,750
(3) Railroad freight on 25,000 tons of cane say 55c. 13,750
(4) Other expenses not included in above, allowing for contingencies, say 10,000

Total estimated Receiver's expenses, \$67,500

Estimated net balance in hands of Receiver after paying all expenses, to be paid to bondholders, say \$107,500

(B) If Olaa becomes the owner of all of the Puna bonds, it would then receive this sum of \$107,500.

The only cash expenditure which it would have to make would be the said sum of \$18,666.66 for said 56 bonds. Deducting this amount from \$107,500 will leave in round numbers \$88,833.

The Olaa company will then own as a result of the transaction:

(1) The Puna plantation free of incumbrances.

(2) \$84,000 in cash.

(C) Olaa stock is now selling for \$5.50 per share. Allow that it is at present worth \$10 a share, this \$84,000 would represent 8400 shares at \$10 a share, representing a par value of \$168,000.

Deducting this number of shares from the number of shares above suggested to be given, viz.: 22,220, leaves 13,800 shares of a par value of \$276,000.

The proposition, therefore, resolves itself down to the following equivalent, and you will be in the same relative position as though you should:

(1) Sell 8400 shares for \$10 a share in cash.

(2) Give 13,800 shares of Olaa stock for a clear title to Puna plantation.

(D) The Olaa plantation is, and, unless the bonding proposition hereunder suggested is carried out, must for some years to come continue a heavy borrower.

The above banks and capitalists embrace practically all of those in San Francisco having financial connections with Hawaii. If these banks and capitalists are heavy losers on Puna, whether Olaa is responsible therefor or not, the relationship between the two enterprises has been so close that Olaa credit will suffer therefrom and it will be embarrassed in its borrowing ability. On the other hand, if these same banks and capitalists are large stockholders in Olaa, their every interest will be served by helping Olaa along.

(E) The present debt due the agents will not, in ordinary course, be wiped out before the latter part of 1907. If, then, we include the probable profits of the crop of 1905, the entire outstanding bonded and open account debt, including agents account, can probably be liquidated by refunding the present bonded debt and other debts by a new bond issue of \$2,000,000.

If the financial concerns and individuals interested in the Puna bonds have made a recent loss on a Hawaiian bond issue, they will naturally feel sore and disinclined to have anything to do with another.

If, however, they feel that they have been fairly treated, and that by assisting in floating a new Olaa bond issue, they will be helping themselves, every motive of self-interest will cause them to assist in floating the new bond

issue, and with their influence the placing of a \$2,000,000 bond issue would be successful as of course.

Without their support, it is more than doubtful if the issue can be floated at all.

(F) If the debt of the plantation is funded, an annual sinking fund can be provided for and the plantation placed on a dividend paying basis on or before the 1st of January next. Prior to the funding of the debts of the Olaa Railway & Land Company, its stock was unsalable. Immediately thereafter it went to par, and commanded a wide market. I confidently believe that the same result will follow a like proceeding on the part of Olaa.

(G) In the event that Olaa acquires Puna, it can do therewith what it pleases. It can either develop it now, or at its leisure in the future.

Or it can lease it out, assuring to itself the profit of grinding the cane therefrom.

Or it can, by bidding its time, sell it out as a whole, at certainly no loss, and with every probability of a profit, at a later date when the returns from the present Hawaiian sugar crop have more generally affected the local financial situation.

Permit me to say, in this connection, that I own, or represent by proxy, 112,646 shares of Olaa stock of a par value of \$2,252,920, out of a total outstanding issue of 219,237 shares; and represent by ownership or endorsement \$472,500 of the Olaa bonds, a total interest in Olaa amounting to \$2,725,420.

My personal interest in Puna bonds is so small as compared with the overwhelming interest which I have in Olaa, that there is no comparison between the two, and the comparatively small incidental benefit which I will receive as a Puna bondholder will be as nothing compared to the benefit which I will receive as an Olaa stock and bondholder if this proposition is accepted.

In the interest of myself and of every Olaa stock and bondholder, and of the agents who will be relieved from carrying the present large debt, I urge upon you to approve the proposition herein set forth, and if you approve, to act promptly thereon.

Yours very truly,

(Signed) B. F. DILLINGHAM.

Mr. Dillingham said in addition: "Mr. Damon mentioned having put in a great amount to carry this Olaa plantation through. No one appreciates this more than I do.

"I don't wish to pose as the savior of Olaa. I've passed through a year of anxiety that I would not repeat.

"I've put my utmost cent into every undertaking that I've asked the people to join.

"Conditions were so bad soon after Olaa started that many were unable to carry their stock. We couldn't allow large blocks of stock to be thrown on the market. I had to carry some \$300,000 of additional stock. I found one man in 'Frisco who would take hold with me, but who was not able to make any substantial advance.

"Should the plantation go to the wall? I would not see this happen.

"I have poured into this company, to pay out the assessable stock—I have borrowed and put into this company some \$3,000,000. Today I see my way out of this difficulty.

"No man has a stronger desire to relieve the agents than I have."

The vote was then taken on the proposition to acquire Puna, and it carried.

MSTOCKER'S OPINION.

There has been considerable discussion on the street concerning the merits of this deal, and the former manager of the Olaa Plantation, Frank B. McStocker, when asked as to whether in his opinion, it was advantageous to Olaa to take over the Puna lands, stated that it certainly was so, that he was very largely interested in Olaa and would certainly not favor a proposition which was not, in his mind, advantageous to the property. He said that numerous statements have been made from time to time of a number of those opposed to the ownership of Puna by Olaa on the plea that Puna could not be made a paying proposition.

Outside of the personal opinion of Mr. McStocker, several experienced plantation managers, notably J. T. Molr, George Ewart, Mr. Lydgate and August Ahrens and several others, have emphatically expressed the opinion that Puna was an exceedingly good cane proposition, although some difference of opinion existed as to whether it was profitable to send the cane to Olaa Mill, or whether it would be wiser to erect a mill on the Puna property.

When asked in regard to the letter of Mr. Watt, the present manager of Olaa Plantation, which was presented at the meeting and which was opposed to the purchase of Puna, Mr. McStocker said it was rather a delicate matter to attempt to criticize the letter as his statements might be attributed to prejudice. Entirely disavowing any such feeling, Mr. McStocker stated that the letter, while technically correct, was very misleading to the stockholders in considering this question, and from his point of view was rather intended to bolster up the desire to turn down the proposition which was presented, for this reason:

"In his letter," said Mr. McStocker, "Mr. Watt states that the cost to Puna for harvesting the cane last season was \$1.8 a ton of cane. This is very true, but it must be remembered that the cost of laying and removing portable track was included in the cost of harvesting as it was not permanent work. But the grading which was done for such work, which is very substantial, and more in the line of permanent improvement, could be taken advantage of in future harvesting, materially reducing the cost.

"At another point in Mr. Watt's letter the statement is made," said Mr. McStocker, "that the difference between the cost of maturing and harvesting an acre of cane in Olaa and maturing and harvesting an acre of cane in Puna was about \$30, against the Puna proposition, but Mr. Watt must know, now having been about a year at Olaa, that a considerable difference in cost exists between the work on Keauu (the makai part of Olaa),

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which is very similar to the Puna lands and the work on the Mountain View section. Comparisons for the guidance of stockholders on a question like this should have been made rather between two similar sections, and not a general average given of Olaa, unless the intention was to distinctly show the difference between putting in a like area in the upper Olaa section as against Puna. He should remember, however, that the work to a very large extent has already been done in Puna and for the present the same area could be brought to maturity in Puna at a much less cost than in the upper Olaa section, which would naturally include the work of clearing. According to this, the acquisition of Puna is advantageous both from the standpoint of cost and time.

"In fact, the Puna fields being the same as Olaa, virgin soil, a cheap method of making Puna profitable, would be to fill in such fields as might be found available and cut back to next August, getting a fairly good crop therefrom."

When asked what percentage of "filling-in" would be required, Mr. McStocker stated that it might, in some cases run as high as 40 to 50 per cent, depending on the appearance of the stools. He said that of course this would be a cheap plan of making the fields productive and naturally would not be as satisfactory as ploughing up the fields and planting an entirely new crop, but that where the disposition existed for the present a fairly good return could be expected from the cheap method.

As to the financial end of the proposition, Mr. McStocker said that the Olaa Sugar Company would probably owe the Puna Sugar Company the purchase price of their crop after all charges had been deducted, about \$70,000, which amount would be saved to the Olaa Company by the purchase. This might be used for handling that place. The question of Olaa shares should not be figured on what they might be worth five years hence, but what they were worth now. The 22,000 shares simply represented a value of \$132,000, for which Olaa was securing the advances which have heretofore been made by them to Puna, amounting to something in the neighborhood of \$500,000. It was also securing the property, on which in the neighborhood of \$1,000,000 had been spent. So that, in his opinion, viewed from any possible point, the purchase of Puna by Olaa was a good proposition for Olaa to enter into.

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